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SUBJECT: ANGOLA'S BANKING SECTOR - LIMITS TO GROWTH?

REF: LUANDA 1261

¶1. (SBU) Summary. Angola's banking sector has grown rapidly since the civil war ended in 2002. Commercial banking assets have doubled to more than USD 6 billion since 2003 and the number of banks has increased. Private banks are profitable, and new banks are looking for market niches. Banks are lending more each year, but the industry's overall lending rates remain low. Regulatory and legal reforms will be necessary to broaden lending, and the National Bank is working to introduce these. End Summary.

#### Rapid Growth of Angola's Banking Sector

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¶2. (U) Since Angola's civil war ended in 2002, total assets of commercial banks have grown from USD 2.9 billion in 2003 to USD 6.3 billion in 2006 (at 80.1 Kwanza per USD). In November, Angola's fourteenth commercial bank, the Banco Privado Atlantico, opened for business with USD 10 million in capitalization. The authorities have since approved another commercial bank.

#### Role of Foreign Investment

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¶3. (SBU) Foreign investment, and foreign banks, have helped fuel banking's growth. Portuguese banks, including Banco Espirito Santo and Millenium Bank, have either established operations in Angola, or invested in new Angolan banks. Other foreign banks investing in Angola include Spain's Banco Santander and South Africa's Standard Bank. Angolan parastatals, such as Sonangol, the national oil company, are also major investors. (Note: A spreadsheet of Angola's commercial banks appears at the end of this cable and in a somewhat different form in the 2007 Investment Climate Statement for Angola. End note.)

#### Access to Credit

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¶4. (SBU) Bank credit has expanded from USD 94 million in 2004 to USD 146 million in 2005, according to the 2006 KPMG study. Lending, however, remains low at 35 percent of assets, according to a late November statement by BNA Vice-Governor Rui Miguens who argued that banks should be lending at least 50 percent of their assets. The Banco Nacional de Angola (BNA) requires banks to deposit with the BNA the equivalent of 15 percent of their deposits. (Note: Banks must also retain a capital adequacy ratio of 10 percent. End note.) Miguens also noted that loans to business make up barely 11 percent of loans, while 67 percent of the amount loaned has gone to individuals. Commercial banks earned USD 226 million in profits in 2005, and Banco Espirito Santo Angola (BESA) earned 72 percent on equity in 2005, according to KPMG. However, most banking profits come from cash management services, foreign exchange transactions, and service fees charged depositors, rather than loans.

## Constraints Limiting Lending

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15. (SBU) USAID Angola has studied which deficiencies in the legal and regulatory system inhibit lending. Credit histories on potential borrowers are unavailable, and even personal identities are hard to verify. Few Angolan land titles are clear, so potential borrowers cannot use land as collateral. The lack of a market for rural land would make foreclosure an unpalatable option for banks in any case. Ill-defined property rights keep real estate finance undeveloped on both the credit and investment sides. Angola lacks notaries to formalize contracts, and reliable courts to enforce them. All of these factors limit access to credit, especially for small and medium enterprises which lack experience with financing and thus have difficulty proposing projects for which banks will lend money.

## Making Profits, but Not Loans

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16. (SBU) Although the banks move large quantities of money, their high turnover rates limit their ability to use the funds to build assets. Angolan banks do not offer financial investment vehicles to keep the money on deposit and use it to build assets. The lack of financial instruments (such as certificates of deposits with a positive real rate of return) reflects the risks of lending to businesses in Angola. Banks have learned to operate profitably by charging for services to businesses. Corporate customers are themselves making good profits. The new Banco Privado Atlantico will target only companies earning over USD 2 million per year.

17. Much bank credit goes to finance imports, leaving little for Angola's non-petroleum economy. In some areas, although banks appear to be extending credit, the real source of credit may be

elsewhere. For example, five-year bank loans for automobile purchase is really financed by the dealership. The dealership conveys title to the vehicle to the bank, which passes the purchaser's monthly payments to the dealership.

## Non-Performing Loans

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18. (SBU) Angola's state-owned commercial banks are believed to be carrying large, undisclosed sums of non-performing loans (NPLs) on their books. Some bank NPLs have been restructured as government debt. In addition, the BNA recently introduced a modified reporting process permitting banks to write off NPLs, and thus free those assets for lending, but it is not yet in use by the entire sector. The declared rate of nonperforming loans by the end of 2004 was 8 percent of total credit granted (KPMG).

19. (SBU) Comment. Inadequacies in Angola's business and legal environment keep banks from playing a larger role in helping Angola's economy grow out of its focus on resource extraction. Commercial banks have lending opportunities in construction, civil works, transportation and manufacture. However, the Angolan government, the biggest spender in the country, will have to do more to provide the business and legal environment banks will need to extend credit more broadly throughout the Angolan economy. Government can encourage an improved business environment to help development. The GRA can take steps to create an encouraging environment for commercial banking.

## 110. (SBU) Angolan Commercial Banks

Bank Name	Head of Bank Title	Shareholders	Clients Svcs
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Bco de Comercio e Industria (BCI)	Adriano Pascoal Pascoal CEO	Govt	Public Enterprises
Bco de Poupanca E Credito (BPC)	Paixoa Junio	Govt	Public Admin, gives some microcredit

Bco Africano De Investimentos (BAI)	Jose Carlos de Castro Paiva CEO	Sonangol, DPM A Jaime, Min of Petrol Desidero Costa	Oil Cos., Biz, Priv. Individs
Bco de Fomento Angolano (BFA)	Isidro Pinheiro CEO	Portuguese Investment Bank (BPI)	Business, Individs
Bco Comercial Angolano (BCA)	Benvindo Pitra CEO	South African Bank (ABSA)	Medium Cos., Individs
Bco Sol	Sebastiano Lavrador CEO	S. Lavrador Ana Paula dos Santos	Micro- credit Small Cos.
Bco Regional Do Keve	Amilcar Silva CEO	A. Silva Carlos Gomes	Agrobiz
Bco Totta De Angola	Mario Nelson Maximo CEO	Bco Totta & Acores	Private Investors
Bco Millnnium Angola	Maria Nazare Dang Genl Mgr	Millenium BPC (Port. Bank)	Priv. Cos.
Bco Espirito Santo Angola (BESA)	Ricardo Espirito Santo CEO	Grupo Espirito Santo (Port.)	
Bco de Credito Internacional (BIC)	Fernando Teles CEO	Grupo Amorim (Port.) Isabel dos Santos	
Novo Banco	Tom Mitro Genl Mgr.	Chevron World Bank	Micro- credit
Bco de Negocios Internacional	Mario Palhares President	Angolan Private Cos.	Cos. Comm. Banks
Bco Privado Atlantico	Carlos da Silva CEO	AAA Ins. Co. Global Pactium	Lg &. Med Cos
Bco de Desenvol- Vimento de Angola (BDA)	Paixao Franco Junior President	State Funds credit and guidance for borrowers	Coops micro

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Notes to the chart above:

Bco = Banco = Bank

Ana Paula dos Santos is the wife of Jose Eduardo dos Santos,  
President of Angola.

Isabel dos Santos is the daughter of President dos Santos.

AAA Insurance Company is a subsidiary of Sonangol, the national oil  
company of Angola.

Global Pactium is a consortium of anonymous Angolan investors.

FERNANDEZ